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A Franklin Templeton Investments Newsletter
PERSPECTIVES

EUROPEAN FIXED INCOME

U.S. woes priced into European bonds

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***A subfund of the Luxembourg-domiciled SICAV, Franklin Templeton Investment Funds ("FTIF")**

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European fixed income markets will continue to be affected by problems in the U.S. and therefore, volatility is likely to remain elevated in the near term. However, we believe the underlying fundamentals of the credit markets in Europe will remain strong and that we will soon see additional opportunities in various sectors. We anticipate that inflation will continue to rise at a moderate pace in Europe, and that economic growth, while slower, will remain in positive territory. This presents somewhat of a conundrum for the central banks, but we expect that the European Central Bank will continue in its efforts to inject liquidity, if needed, in order to help ensure the markets remain orderly.

We are relatively comfortable with our current positioning. A faster-than-expected slowdown in Europe would make government bonds more attractive than other products. However, government bonds are not a sector we wish to pursue aggressively at current yield levels. The defensive duration position of a fund like FTIF Templeton European Total Return Fund* is justified by our belief that the European slowdown will not prove to be as dramatic as is being currently priced in by the markets, which means we do not expect drastic cuts from the ECB. Given that we don't believe the slowdown in growth will be as severe in Europe as the market is currently pricing, we are not looking at extending duration that much.

By contrast, we maintain a favorable view of both high yield and investment grade corporate credits , as spread widening, coupled with positive fundamentals continue to make select opportunities attractive. Indeed, after the considerable volatility of recent months, we believe that financial sector spread levels offer attractive value, particularly some select investment-grade paper. In our view, the overall fundamentals of the financial sector in Europe remain intact, unlike in the U.S., where credit fundamentals have been deteriorating. We maintain a positive outlook on the sector, which we believe offers the most compelling relative opportunities to add value in the coming months. That said, we will continue to monitor the sector closely, with an especially close eye on fourth-quarter write-downs and balance sheet strength.

FTIF Templeton European Total Return Fund built up some exposure to the Swiss franc in January. The Swiss franc is, however, very expensive, and holding it means giving up better yield potential elsewhere. Even though is a low yielding currency, like the Japanese yen it will benefit from the unwinding of carry trades (although perhaps to a lesser extent than the yen) as long as concerns about global growth dominate. Historically, it has been a good currency to hold when there has been market volatility and a flight to quality. To build our Swiss franc position, we eliminated our Polish currency exposure. We had previously exited the currencies of countries such as Romania and Iceland that, like Poland, have current account deficits. However, the zloty has been good to FTIF Templeton European Total Return Fund and we do not exclude building a position in the Polish currency again. Poland's current account deficit is much smaller than either Romania's or Iceland's, and it is easily covered by foreign direct investment. Simply, with capital becoming scare, the zloty may be expected to weaken.

NATURAL RESOURCES
Supply concerns drive oil market

Frederick G. Fromm,
CFA, Portfolio Manager,
Franklin Global Advisers

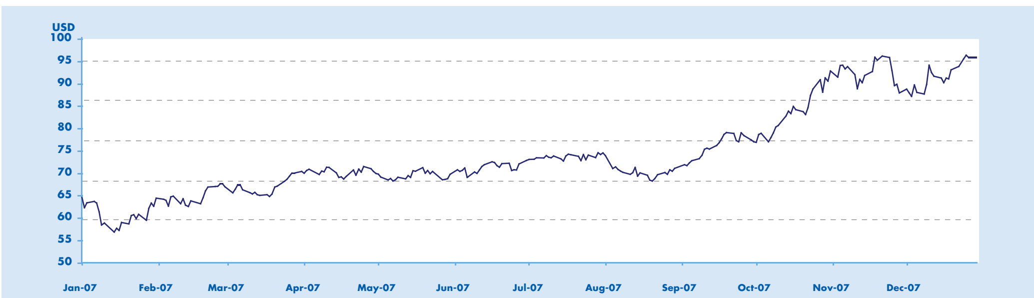
In 2007, the price of a barrel of oil ranged from a low of US$57 in January to a high of US$96 at the end of December. Several fundamental trends drove these prices: resilient demand growth despite higher prices; limited supply as a result of production delays and mature field decline rates; a weakening U.S. dollar; and geopolitical tension in several producing regions such as Iran, Turkey/Iraq and West Africa (primarily Nigeria). Although all of these factors came into play, the uncertainty of long-term supply was one of the most important. Oil is produced from thousands of fields all over the world, many run by government entities that do not share production data. It is, therefore, very difficult to estimate available supply, creating price speculation.

We share the consensus view that the recent relative stabilization in the price of crude oil marks a correction in an overheated market rather than the start of a fundamental change that would take prices significantly lower for a prolonged period of time. Although economic growth in the United States and Europe appears set to slow in 2008, non-OECD consumption growth has become an increasingly important driver in overall global demand trends. We believe rapid growth in non-OECD countries, which includes many emerging markets, combined with constrained supply sets the stage for a strong fundamental environment over the next several years, if not decades, driven by increases in per-capita consumption of nearly all commodities. For example, in countries such as China, where oil consumption currently stands at two barrels per person per year, an increase of just one barrel per person would require about 1.2 billion additional barrels of oil, which is significant.

In the short term, with oil seen as a proxy for economic activity, most analysts anticipate volatility in response to financial flows into and out of the commodity as a result of speculation on the state of the global economy. We do not attempt to estimate short-term moves but rather long-term trends such as finding and extraction costs, availability of supply and resilience of demand. For example, one of our core holdings, FMC Technologies, is a leading manufacturer and supplier of subsea production systems used to control the flow of oil and gas from offshore wells. FMC is developing new technologies that will allow oil companies to improve the rate at which it can recover oil from subsea reservoirs and bring it to market.

As for natural gas, we primarily focus on the North American market as it is one of the world's largest producers and consumers of natural gas. Given its advanced development, the market offers many more high-quality opportunities for investment. In addition, many U.S. and Canadian companies have international operations, which allow us to benefit from global trends in natural gas as well. Natural gas markets were fairly well balanced for most of 2007, and that was reflected in relatively stable U.S. prices. However, international markets, many of which are priced off oil, experienced price increases.

Chart1: Oil Prices on the Rise



Source: Bloomberg, as of 31 Dec 2007

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GLOBAL EQUITY

Stock Picking for Value

Norman Boersma,
Director of Research, Templeton Global Equity

One of the primary tenets of Templeton's investment process is to seek out companies that we believe are trading at a discount to what our research indicates the company may be worth. Now that equity markets have tumbled around the world, there are some good opportunities, but we are not finding value in all sectors equally. However, we continue our research in all areas, and we realize that if there is going to be volatility – and there is – we really want to be ready and have our work completed when the price is right.

For example, within the telecommunication services we are still comfortable buying select large integrated fixed-line and wireless companies around the world. The health care sector has also offered some interesting values; we are comfortable with some of the pharmaceuticals that still offer nice dividend yields at low multiples. Some sectors are already pricing in a slowdown, or even a recession. Within the consumer area, where stock prices have come down quite a bit, especially in the United States, certain automobile parts and other auto-related companies represent good value. Yet in other parts of the consumer area, such as retailing, we are more cautious, and are not quite ready to jump in with both feet.

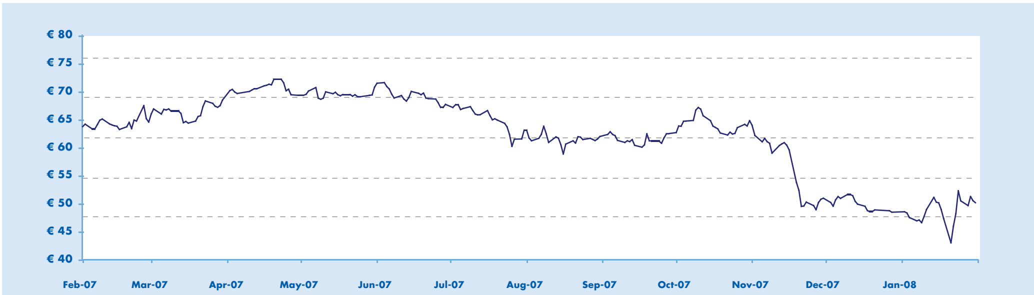
In the financial sector, which has been a real bloodbath, we are identifying some interesting companies, but we believe we will find the best values by taking our time. In fact, the Templeton portfolios have been underweight financials for quite awhile. For many years, we had concerns about valuations; the sector had done well and we were concerned about sustainability going forward.

After recent turmoil in the financial industry, particularly in securities with mortgage or structured-product exposure, there are still some questions about where the bottom might be. We need to ask ourselves whether the stocks are currently reflecting the worst-case scenario. For example, we need to know whether there will be further asset writeoffs or writedowns. Because of their vulnerability, we are still wary of most commercial banks.

Value in Insurance Industry

We are more sanguine about the insurance sector, where we feel the credit risk is limited. One of the stocks we have owned for a little while is Swiss Re, one of the world's largest reinsurance companies. The insurance cycle is looking interesting to us: the property and casualty side has been weak; but the life side has some opportunities. Swiss Re is very diversified and operates in three business areas – property and casualty, life and health, financial services and real estate. The company announced some writeoffs that were unexpected and so the stock is now trading at one of the lowest prices in years. This is a well-capitalized company, with a good dividend yield. We think the stock is fundamentally strong, and we are comfortable adding to our position.

Chart2: Swiss Re Stock Price.1 Feb 2007 - 31 Jan 2008



Source: Bloomberg, based on last closing price, as of 31 Jan 2008

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EMERGING MARKETS

Corrections Offer Opportunities

Dr. Mark Mobius,
Executive Chairman, Templeton Asset Management Ltd.

Considering recent price corrections in emerging markets and markets worldwide, it's important to note that stock markets tend to be more volatile than underlying economies. Dramatic slides in a given market could be a good opportunity to buy, especially if the economy is still doing well.

For example, we consider China a compelling market. As new money comes into our funds, we continue to invest in Chinese companies that we expect will perform over a five-year period. We are focusing on the energy, materials, banking and telecommunications sectors. Energy and materials stocks are expected to benefit from greater revenues and earnings due to relatively high commodity prices and higher infrastructure and energy demand from China and the rest of the world. Banking reforms and growing demand for financial services make banks attractive investments, while the potential for growth in telecommunications leads us to remain positive on this sector. China is a well-known growth story, and we believe we're still seeing the beginning of its growth cycle.

We also have significant investments in Brazil and Russia, which we are overweight relative to the MSCI Emerging Markets Index. The Brazilian economy has recorded a strong current account surplus, supported by a record trade surplus due to the high volume and prices of commodity exports. Brazil is a major agricultural producer and exporter of food products and raw materials. International confidence in Brazil also has been high. Russia also has vast natural resources. We're aware that the Russian stock index is exposed to a correction in energy prices, but we believe Russian commodity-related stocks in our portfolio are fundamentally strong and should continue to make good profits and record substantial margins, even allowing for price corrections.

History has shown that the best time to buy is when everyone is selling. This has enabled us at Templeton to purchase stocks at attractive prices. The markets may to be volatile at times, but emerging markets' underlying fundamentals remain intact.

FTIF Templeton Asian Growth Fund* Awarded AAA-Rating from S&P

FTIF Templeton Asian Growth Fund, with US$7.7 billion in assets (as of January 31, 2008), was awarded the highest fund management rating by Standard & Poor's—AAA—on February 4, 2008.

Less than 8% of the 1,300 funds reviewed by S&P earn this rating. According to S&P: "This is one of the largest portfolios in our review of South East Asia funds, having doubled in size in each of the last three years through performance and consistently high cash flows. That the latter has been accommodated in rapidly rising markets without any negative impact on performance is testament to the managers' skill and the high quality of the research provided by an experienced and well-resourced regional team."

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